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State of Idaho

Legislative Services Office

Management Report

A communication to the Joint Finance-Appropriations Committee

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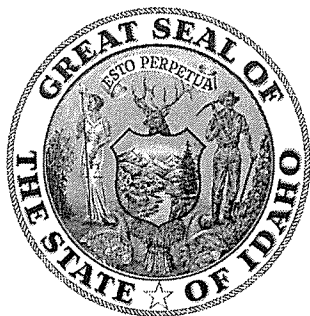
# **IDAHO BOARD OF PHARMACY**

**FY 2006, 2007, and 2008**

**Report IC42108**

**Date Issued: September 18, 2009**

*Serving Idaho's Citizen Legislature*



Don H. Berg, Manager

Idaho Legislative Services Office  
Legislative Audits Division

## IDAHO BOARD OF PHARMACY

### SUMMARY

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#### PURPOSE OF MANAGEMENT REVIEW

We conducted a management review of the Idaho Board of Pharmacy covering the fiscal years ended June 30, 2006, 2007, and 2008. Our review covered general administrative procedures and accounting controls to determine that activities are properly recorded and reported.

The intent of this review was not to express an opinion, but to provide general assurance on internal controls and to raise the awareness of management and others of any conditions and control weaknesses that may exist and offer recommendations for improvement.

#### CONCLUSION

Our review disclosed internal control weaknesses in the receipting and licensing process. We also identified weaknesses and noncompliance in inspections and monitoring efforts.

#### FINDINGS AND RECOMMENDATIONS

There are two findings and recommendations in this report.

1. Inspection and monitoring efforts are not completed as required.
2. Significant internal control weaknesses exist over the receipting process.

The complete findings are detailed on pages 1 through 4. A copy of this report is available at <http://www.legislature.idaho.gov/audit> or by calling 208-334-4832.

#### PRIOR FINDINGS AND RECOMMENDATIONS

There were no findings and recommendations in the prior report.

#### AGENCY RESPONSE

The Board has reviewed the report and is in general agreement with its contents.

## FINANCIAL INFORMATION

The Board receives funds from licensing pharmacists and pharmacies; over-the-counter drug retailers and wholesalers; and other licenses, fees, and fines. The following financial data is for informational purposes only.

### Idaho Board of Pharmacy – Fiscal Year 2008

	State Regulatory Fund 0229	Federal Fund 0348
Beginning Cash Balance	\$1,792,404	\$7,345
Receipts:		
Licenses, Fees, and Fines	1,066,962	0
Federal Funds	0	83,408
Total Funds Available	<u>\$2,859,366</u>	<u>\$90,753</u>
Disbursements:		
Personnel Costs	\$629,049	\$53,554
Operating Expenditures	292,619	33,500
Capital Outlay	48,102	0
Total Disbursements	<u>\$969,770</u>	<u>\$87,054</u>
Ending Cash Balance	<u>\$1,889,596</u>	<u>\$3,699</u>

This report is intended solely for the information and use of the State of Idaho and the Idaho Board of Pharmacy and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the director, Mark Johnston, and his staff.

### ASSIGNED STAFF

Lori Hendon, Managing Auditor  
Sherie Hoid, Staff Auditor

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# FINDING AND RECOMMENDATION

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## FINDING 1

### Inspections and monitoring efforts are not completed as required.

Administrative rules require the Board to complete annual onsite inspections of all institutional pharmacies and retail veterinary drug outlets. In addition, the Board monitors compliance with license renewal requirements. We noted the following issues:

- a) No inspections were completed in the Southwest District for fiscal year 2007. Annual inspections were not completed on entities within the Southwest District during fiscal year 2007, which includes Ada and Canyon counties and is the largest district in the State. These inspections were not completed because the compliance officer position was vacant for nearly 12 months. Board members were informed that inspections were not being performed within this district due to the difficulty in recruiting this position.
- b) Inspection reports are not reviewed or compared to the master list to ensure that all inspections are performed. A master list is generated each year from the licensing system to identify the licenses issued in each region. This list is provided to the senior compliance officer who assigns inspection requirements to the regional compliance officers and reviews the results. This review effort ensures that all entities are inspected and that any identified issues or violations are resolved.

We noted that the senior compliance officer did not maintain copies of the master list or track completion of inspections. In addition, no reviews were done on inspection reports completed during fiscal year 2008, and only a portion of the fiscal year 2007 inspection reports had been completed.

- c) Forms used for inspections are out of date with current regulations. The forms used to document inspection results have not been revised to reflect updates to current laws and regulations. For example, IDAPA Rule 151.01 header reads "Application for Registration of Pharmacy." However, it is listed as "Outdated Pharmaceuticals Removed from Active Stock" on the inspection form. Current forms are necessary to ensure facilities and practitioners are in compliance with current federal and State laws.
- d) A list of expired licenses is not maintained or reviewed to ensure that inspectors complete required visits. A list of expired licenses is provided to the regional compliance officers so that inspections can be scheduled to determine whether practitioners are operating without a license. However, the senior compliance officer does not maintain or review this list to ensure that all inspections of expired licenses are completed and appropriate actions are taken.

## RECOMMENDATION 1

**We recommend that the Board improve the procedures over the inspection and review process. This includes implementing procedures to ensure that all required inspections for facilities and practitioners are completed, tracked, and reviewed against the complete master list and that forms used for inspections are up-to-date.**

## AGENCY'S CORRECTIVE ACTION PLAN

- a) Though there were no routine inspections conducted during FY07 in the Southwest area of the State, all new pharmacies and wholesale facilities were inspected prior to licenses/registrations being issued. We have now filled the inspector position, and all inspections are up to date. Only institutional drug outlets and veterinary drug outlets are required to receive Board inspections annually, via rule. These two categories comprise just 3% of the total drug outlets registered by the Board.
- b) We have modified this process. The senior compliance officer will maintain a master list indicating inspections conducted.
- c) The Board has been pursuing an electronic, hand-held inspection device to improve documentation and speed of inspections. The programming/creation of the software has not been completed. The contract between the vendor and the Board is being reviewed by the Division of Purchasing and the Attorney General's Office. Once this issue is resolved, forms will be updated.
- d) This service is provided as a courtesy to our licensees and registrants in an attempt to try to identify those licensees or registrants who have not renewed prior to working without a license or registration. As this courtesy is not required by statute or rule, documentation of the results of this courtesy have not been kept. Based on the results of this audit, the Board will decide if it will continue this courtesy before the next registration period. If the Board continues this courtesy it will be documented as suggested.

## FINDING 2

### Significant internal control weaknesses exist over the receipting process.

The Board of Pharmacy processes thousands of licenses every year, generating thousands of receipt transactions. We reviewed the receipting process and identified the following internal control weaknesses:

- a) Cash receipts collected during the day are kept in an unsecured location. During the day, receipts are kept in a file above the customer service representative's desk. The door to the office requires a security code or an employee must grant access. The customer service representative's desk is located by the front door of the agency, and the cash and checks are accessible to anyone in the office.
- b) Documentation showing the date renewal applications are received is discarded. When a renewal is received, the original envelope is attached to the application, acknowledging the postage date as the date the application was received. After the renewal is processed, the envelope is discarded. Renewal applications must be submitted by July 1; otherwise a late fee is assessed. During peak licensing and renewal periods (June and December), the workload is such that renewal applications are often set aside for several days while new license applications are processed first. Also, if a registrant is practicing under an expired license, a fine can be assessed for the number of days worked without an active license. However, the

Board is unable to support when these applications are received and whether to assess fines because the envelopes are discarded and the applications are not date stamped.

- c) Receipts are not deposited promptly as required by Idaho Code. Receipts are not always deposited promptly as required by Idaho Code, Section 59-1014. This code section requires agencies to deposit receipts daily when the amounts collected during a 24-hour period exceeds \$200 or at least weekly otherwise. The Board's process is to hold the deposits for renewal applications until the information has been entered into the license tracking program. As a result, collections exceeding \$200 are not deposited within the 24-hour time frame.
- d) The comparison of the batch control log with the deposit amount in the State accounting system (STARS) is not consistently documented. The comparison of the deposit amount on the batch control log with the amount deposited in STARS is an essential internal control to ensure that amounts are properly recorded. The evidence that this comparison has been completed is documented by the reviewer's initials on the batch control log. However, we identified several instances where the batch control logs were not initialed, indicating that the amounts were not compared.
- e) Reconciliation of licenses issued to amounts collected is incomplete. The Board collected over \$1 million during fiscal year 2008 for various licenses, but the process of reconciling the number of licenses issued, as recorded in the license tracking system, with the amounts deposited in STARS is incomplete. Unexplained variances exist and limitations in the system prevent the Board from determining the cause for these variances. In addition, reports from the license tracking system are used to prepare data for the Legislative Budget Book, even though not specifically supported by the accounting records.

## RECOMMENDATION 2

We recommend that the Board improve internal controls over the receipting process by 1) developing a procedure to physically secure receipts during the day; 2) ensuring the date of receipt is adequately documented and supported, 3) documenting the review of all batch amounts with deposit amounts in STARS, 4) ensuring receipts are deposited promptly in accordance with Idaho Code, and 5) reconciling licenses issued to receipts collected.

We also recommend that the Board seek training and assistance from the State Controller's Office on internal control policies and consider contacting other agencies that have similar operations for recommendations and "best practices" that could be incorporated into the Board's policies and procedures.

## AGENCY'S CORRECTIVE ACTION PLAN

- a) Monies that are collected throughout the day are held in a locked drawer at the customer service desk until being processed into a batch. Access to the key is restricted to the customer service representative (CSR) and the financial technician (FT). Once the batch is entered, the monies are transferred to a safe that is accessible only to the CSR and FT.
- b) Now, the Board staff date stamps every piece of mail that arrives at the office. Envelopes showing postmarks are attached to renewal forms only when they are postmarked after June 30 or December 31; these postmarks determine assessment of late fees. Any application that is in the office and postmarked

prior to the deadline is processed without an assessment of a late fee. Renewals are generally processed within 48 hours of arriving in the office. In addition, all applications received with fees are entered into the licensing program, which creates a cash receipt report. This process records the date funds are received and is maintained in the licensing program. This is now, and has always been, a daily function of the CSR or FT.

- c) The Board has obtained a subsidiary account to deposit bulk monies; this ensures that all deposits over the \$200 threshold are made within the 24-hour requirement, even if the applications have not been processed.
- d) The CSR is now ensuring that this is completed on a weekly basis.
- e) The board is in the process of updating/upgrading our licensing system and our reporting tools. These changes will allow us to retrieve the information needed to reconcile the monies received to the applications processed, and/or allow us to determine if a variance exists. Due to the nature of our business, a variance is always possible. The new reporting mechanism will allow us to better explain any variance, if one exists. When a new application is received, the monies are applied to an invoice, though it could be several days or weeks before the license is issued or denied. This situation could cause some variances over the fiscal year due to the monies being received in FY09 and the license not being issued until FY10. In addition to our system changes, we will also coordinate with the State Controller's Office to ensure that policies, procedures, and best practices are followed.



# AGENCY RESPONSE

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# Idaho State Board of Pharmacy

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September 2, 2009

To: Don H. Berg, Manager  
Legislative Services Office

From: Mark Johnston, RPh, Executive Director

A handwritten signature in black ink, appearing to read "Mark Johnston", is written over a horizontal line.

Re: Legislative Audit FY 06 – FY 08

## Finding 1

- a. Though there were no routine inspections conducted during FY07 in the Southwest area of the State, all new pharmacies and wholesale facilities were inspected prior to licenses/registrations being issued. We have now filled the inspector position, and all inspections are up to date. Only institutional drug outlets and veterinary drug outlets are required to receive Board inspections annually, via rule. These two categories comprise just 3% of the total drug outlets registered by the Board.
- b. We have modified this process. The Senior Compliance Officer will maintain a master list indicating inspections conducted.
- c. The Board has been pursuing an electronic, hand-held inspection device to improve documentation and speed of inspections. The programming/creation of the software has not been completed. The contract between the vendor and the Board is being reviewed by the Division of Purchasing and the Attorney General's Office. Once this issue is resolved, forms will be updated.
- d. This service is provided as a courtesy to our licensees and registrants, in an attempt to try to identify those licensees or registrants who have not renewed prior to working without a license or registration. Working without a valid registration or license has always resulted in discipline by the Board. As this courtesy is not required by statute or rule, documentation of the results of this courtesy have not been kept. Based on the results of this audit, the Board will decide if it will continue this courtesy before the next registration period. If the Board continues this courtesy, it will document as suggested.

## Finding 2

- a. Monies that are collected throughout the day are held in a locked drawer at the Customer Service desk until being processed into a batch. Access to the key is restricted to the Customer Service Representative (CSR) and the Financial Technician (FT). Once the batch is entered the monies are transferred to a safe that are accessible only to the CSR and FT.

- b. Now, the Board staff date stamps every piece of mail that arrives at the office. Envelopes showing postmarks are attached to renewal forms only when they are postmarked after June 30 or December 31; these postmarks determine assessment of late fees. Any application that is in the office and postmarked prior to the deadline is processed without an assessment of a late fee. Renewals are generally processed within 48 hours of arriving in the office. In addition, all applications received with fees are entered into the licensing program which creates a cash receipt report; this process records the date funds are received and is maintained in the licensing program. This is now, and has always been, a daily function of the CSR or FT.
- c. The Board has obtained a subsidiary account to deposit bulk monies; this ensures all deposits over the \$200 threshold are made within the 24 hour requirement, even if the applications haven't been processed.
- d. The CSR is now ensuring that this is completed on a weekly basis.
- e. The Board is in the process of updating/upgrading our Licensing system and our reporting tools. These changes will allow us to retrieve the information needed to reconcile the monies received to the applications processed, and/or allow us to determine if a variance exists. Due to the nature of our business a variance is always possible; the new reporting mechanism will allow us to better explain any variance, if one exists. When a new application is received the monies are applied to an invoice, though it could be several days or weeks before the license is issued or denied. This situation could cause some variances over the fiscal year due to the monies being received in FY09 and the license not being issued until FY10. In addition to our system changes, we will also coordinate with the Controller's Office to ensure policies, procedures and best practices are followed.

We would like to thank Sheri Hoid for her diligence in conducting this audit.

# APPENDIX

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## HISTORY

Prior to July 1939, the Board of Pharmacy was under the Department of Law Enforcement. From July 1939 to July 1974, the Board was an independent agency. Since July 1, 1974, the Board has been a self-governing agency.

## STATUTORY AUTHORITY

The statutory authority for the Board is found in Idaho Code, Title 54, Chapter 17. To become a licensed pharmacist, an individual must have received a professional undergraduate degree from a school or college of pharmacy approved by the Board. Only those schools or colleges of pharmacy whose programs meet the standards established by the American Council on Pharmaceutical Education (ACPE) shall be deemed "approved" by the Board. However, graduates of schools or colleges of pharmacy located outside the United States, which have demonstrated that the standards of their respective undergraduate degree programs are at least equivalent to the minimum standards for accreditation established by the ACPE, shall have satisfied the requirements of Idaho Code, Section 54-1722(1)(d), by providing evidence satisfactory to the Board of graduating from such school and successfully passing an equivalency examination, as well as tests of both spoken and written English, recognized by the Board. A minimum 1,500-hour extern/intern program, under the supervision of a licensed preceptor, is also required.

Upon graduation, an individual must pass the NABPLEX, or National Association of Boards of Pharmacy Licensure Examination, developed and administered by the National Association of Boards of Pharmacy and used by the Idaho Board of Pharmacy as a part of its assessment of competence to practice pharmacy. Candidates for licensure must also pass the Idaho Jurisprudence Examination.

After meeting educational requirements, passing the Idaho Board examinations, and meeting experience requirements, the individual then becomes eligible for licensure.

Licenses must be renewed annually with a requirement of 15 hours of continued education.

## PURPOSE

The purpose of the Board of Pharmacy, as stated in Idaho Code, Section 54-1703, is to:

Promote, preserve and protect health, safety, and welfare of the public by and through the effective control and regulation of the practice of pharmacy and of the registration of drug outlets engaged in the manufacture, production, sale and distribution of drugs, medications, devices, and such other materials as may be used in the diagnosis and treatment of injury, illness, and disease.

To carry out this purpose, the Board's functions include the following:

- License and regulate all pharmacists and pharmacies within the State and all out-of-state mail service pharmacies that provide services to residents of Idaho.
- Register and inspect every person who manufactures, distributes, or dispenses any controlled substance within the State. Also registered are wholesalers or manufacturers within the State and out-of-state wholesalers or manufacturers who ship controlled substances into the State.
- Regulate and control the sale and distribution of drugs and medical supplies and ensure that individuals engaged in these practices have received the proper education and training.
- License and inspect all wholesalers and retail outlets who offer for sale non-legend drugs.
- Investigate improprieties of drug use or diversion for all legend and non-legend drugs, with specific attention to the misuse or abuse of drugs under the Controlled Substances Act.

## **ORGANIZATION**

The Board comprises five members; four pharmacists and one public representative. Members are appointed by the Governor for staggered five-year terms and may be reappointed for a second term.

The Board employs a licensed pharmacist as an ex officio member of the Board and as a full-time employee in the position of executive director. The executive director is responsible for regular administrative functions of the Board and such other duties as the Board may direct.

Office and field staff include: one senior compliance officer, three compliance officers, one senior investigator, one financial technician, one program information coordinator, one licensing coordinator, one investigative assistant licensing specialist, and one customer service representative.

## **FUNDING**

The State Regulatory Fund 0229 is the primary operating fund for the Board. Revenues are generated from licensing pharmacists, practitioners, interns and externs, pharmacies, manufacturers, over-the-counter drug retailers and wholesalers; and other licenses, fees, and fines. These funds are used to pay for all personnel and administrative costs not otherwise paid for with federal award money.

The Board was awarded a federal grant from the Department of Justice for Developing and Enhancing Prescription Drug Monitoring Program. The grant is accounted for in Federal Fund 0348 and used for personnel and operating expenditures.

# Idaho State Board of Pharmacy

